JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

North Carolina Mutual Life Insurance Company

Audited Financial Statements - Statutory Basis

Years ended December 31, 2008 and 2007
with Report of Independent Auditors

North Carolina Mutual Life Insurance Company

Audited Financial Statements - Statutory Basis

Years ended December 31, 2008 and 2007

Contents

Report of Independent Auditors....1 - 2

Audited Financial Statements - Statutory Basis:

Balance Sheets - Statutory Basis....3 - 4
Statements of Operations - Statutory Basis....5
Statements of Changes in Surplus - Statutory Basis....6
Statements of Cash Flows - Statutory Basis....7
Notes to Statutory Basis Financial Statements....8 - 38

Other Financial Information:

Report of Independent Auditors on Accompanying Information....39
Supplemental Investment Risk Interrogatories
Summary Investment Schedule
Supplemental Schedule of Assets and Liabilities

Report of Independent Auditors

Audit Committee of the Board of Directors
North Carolina Mutual Life Insurance Company

We have audited the accompanying balance sheets - statutory basis of North Carolina Mutual Life Insurance Company ("the Company") as of December 31, 2008 and 2007, and the related statements of operations, changes in surplus, and cash flows - statutory basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note B to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the North Carolina Department of Insurance ("statutory accounting practices"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Although the effects on the financial statements of the variances between statutory accounting practices and GAAP have not been determined, they are presumed to be material.

As of December 31, 2007 the Company had participation agreements in certain mortgage loans, the deeds of trust for which were not issued in the name of the Company. The North Carolina Department of Insurance ("NCDOI") considered these participation agreements to be other than first liens, and thus, non-admissible assets. As of October 22, 2008, the Company was contesting the NCDOI's position on the matter, and had included the balance of such mortgage loan participation agreements as a component of admitted assets within the Balance Sheets - Statutory Basis. For these reasons, in our report dated October 22, 2008, we expressed a qualified opinion on the 2007 statutory basis financial statements with regard to the fair presentation of the financial position, results of operations, and cash flows in conformity with basis of accounting described in Note B. The Company has since taken measures to resolve this matter with the NCDOI and, accordingly, our present opinion on the 2007 financial statements, as presented herein, is different from that expressed in our previous report.

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In our opinion, because of the effects of the matter discussed in the third paragraph, the statutory basis financial statements referred to above do not present fairly, in conformity with GAAP, the financial position of North Carolina Mutual Life Insurance Company as of December 31, 2008 and 2007, or the results of its operations or its cash flows for the years then ended.

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Mutual Life Insurance Company at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note B.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, certain conditions exist that raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are described in Note A. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Johnson Lambert & Co. LLP

Raleigh, North Carolina
May 8, 2009

North Carolina Mutual Life Insurance Company

Balance Sheets - Statutory Basis

	As of December 31,	
	2008	2007
Admitted assets		
Bonds	$ 104,378,230	$ 83,632,781
Common stocks	1,017,843	869,921
Mortgage loans on real estate	12,661,732	11,593,029
Properties held for sale	-	24,324
Cash and short-term investments	12,170,662	6,894,850
Contract loans	6,255,066	4,955,389
Other invested assets	-	46,270
Receivables for securities	671,669	47,275
Total cash and invested assets	137,155,202	108,063,839
Investment income due and accrued	1,578,457	1,510,349
Premiums in course of collection	2,515,878	4,341,321
Deferred premiums	2,707,150	2,825,753
Amounts recoverable from reinsurers	1,523,226	1,117,342
Other amounts receivable under reinsurance contracts	6,379,889	5,746,481
Current federal income taxes recoverable	-	40,371
EDP equipment and software	3,978	12,378
Other admitted assets	8,633,793	8,657,920
Total admitted assets	$ 160,497,573	$ 132,315,754

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See accompanying notes to the statutory basis financial statements

North Carolina Mutual Life Insurance Company

Balance Sheets - Statutory Basis

	As of December 31, 2008	2007
Liabilities and policyholders' surplus		
Liabilities:		
Aggregate reserves for life contracts	$ 125,526,038	$ 95,943,005
Aggregate reserves for accident and health contracts	423,509	401,897
Liability for deposit-type contracts	2,725,605	2,796,140
Contract claims	8,765,331	8,895,069
Provision for policyholders' dividends and coupons payable in the following year	549,346	453,793
Premiums and considerations received in advance	222,315	206,587
Commissions to agents due or accrued	294,009	126,123
Commissions and expense allowances payable on reinsurance assumed	81,284	60,892
General expenses due or accrued	916,942	1,230,767
Taxes, licenses and fees due or accrued	(25,123)	(510,143)
Unearned investment income	1,253,063	15,618
Amounts withheld or retained by Company as agent or trustee	(144,835)	844,152
Amounts held for agents' account	(151,047)	19,444
Remittances and items not allocated	441,136	448,647
Liability for benefits for employees and agents	3,958,985	4,049,660
Asset valuation reserve	608,371	746,399
Drafts outstanding	164,472	201,936
Funds held under coinsurance	2,999,995	610,989
Other liabilities	2,886,345	2,910,059
Total liabilities	151,495,741	119,451,034
Policyholders' surplus:		
Special surplus funds	8,196,539	8,474,028
Unassigned funds	805,293	4,390,692
Total policyholders' surplus	9,001,832	12,864,720
Total liabilities and policyholders' surplus	$ 160,497,573	$ 132,315,754

See accompanying notes to the statutory basis financial statements

North Carolina Mutual Life Insurance Company

Statements of Operations - Statutory Basis

	Years ended December 31, 2008	2007
Revenues		
Premium and annuity considerations for life and accident and health contracts	$ 37,311,836	$ 46,733,880
Net investment income	7,257,374	5,759,994
Amortization of interest maintenance reserve	215,296	403,468
Commissions and expense allowance on reinsurance ceded	12,147,768	5,036,885
Reserve adjustments on reinsurance ceded	23,706,148	301,632
Miscellaneous income	(151,458)	1,255,096
Total operating revenues	80,486,964	59,490,955
Benefits and other expenses		
Death benefits	24,985,212	22,487,255
Matured endowments	249,588	259,915
Disability benefits and benefits under accident and health contracts	579,596	12,996,140
Surrender benefits and other fund withdrawals for life contracts	2,315,760	2,179,016
Group conversions	17,494	37,392
Interest and adjustments on contract or deposit-type contract funds	4,425	64,050
Payments on supplementary contract with life contingencies	8,287	4,932
Change in aggregate reserves for life and accident and health contracts	29,379,771	(1,167,253)
Total insurance benefits	57,540,133	36,861,447
Commissions on premiums, annuity considerations and deposit-type contract funds	2,190,835	1,706,978
Commissions and expense allowances on reinsurance assumed	8,202,049	1,549,863
General insurance expenses	15,568,005	19,048,478
Insurance taxes, licenses and fees	1,387,758	1,345,845
Change in loading on deferred and uncollected premiums	(683,829)	(180,404)
Other (income) expenses	216,624	3,597,981
Total benefits and other operating expenses	84,421,575	63,930,188
Net loss from operations before policyholder dividends, federal income taxes and net realized capital gains and losses	(3,934,611)	(4,439,233)
Dividends to policyholders	(522,764)	(429,802)
Net realized capital (losses) gains, net of tax	124,265	1,005,408
Net (loss) income	$ (4,333,110)	$ (3,863,627)

See accompanying notes to the statutory basis financial statements

North Carolina Mutual Life Insurance Company

Statements of Changes in Surplus - Statutory Basis

	Special surplus funds	Unassigned funds	Total policyholders' surplus
Balance at January 1, 2007	$ 8,768,575	$ 5,786,092	$ 14,554,667
Net (loss) income	-	(3,863,627)	(3,863,627)
Change in net unrealized capital gains and losses, net of tax	-	(7,196)	(7,196)
Change in net deferred income tax asset	-	960,970	960,970
Change in non-admitted assets and related items	-	575,977	575,977
Change in asset valuation reserve	-	267,375	267,375
Changes in surplus as a result of reinsurance	(251,852)	-	(251,852)
Other gains and losses in surplus	(42,695)	671,101	628,406
Balance at December 31, 2007	8,474,028	4,390,692	12,864,720
Net (loss) income	-	(4,333,110)	(4,333,110)
Change in net unrealized capital gains and losses, net of tax	-	155,552	155,552
Change in net deferred income tax asset	-	1,305,620	1,305,620
Change in non-admitted assets and related items	-	3,989	3,989
Change in asset valuation reserve	-	137,746	137,746
Changes in surplus as a result of reinsurance	(242,473)	20,000	(222,473)
Other gains and losses in surplus	(35,016)	(875,196)	(910,212)
Balance at December 31, 2008	$ 8,196,539	$ 805,293	$ 9,001,832

See accompanying notes to the statutory basis financial statements

North Carolina Mutual Life Insurance Company

Statements of Cash Flows - Statutory Basis

	Years ended December 31, 2008	2007
Cash from operations		
Premiums collected, net of reinsurance	$ 39,689,177	$ 46,988,626
Net investment income	7,526,654	5,877,634
Miscellaneous income	35,696,537	8,314,176
Benefits and loss related payments, net	(29,324,875)	(40,702,050)
Commissions, expenses paid and aggregate write-ins for deductions	(26,688,060)	(25,778,014)
Dividends paid	(427,211)	(385,402)
Federal and foreign income taxes (paid) recovered	-	(40,371)
Net cash from operations	26,472,222	(5,725,401)
Cash from investments		
Proceeds from investments sold, matured, or repaid:		
Bonds	41,247,258	31,871,321
Stocks	43,750	-
Mortgage loans	1,750,031	918,517
Real estate	218,376	-
Other invested assets	7,800	1,603,427
Miscellaneous proceeds	-	22,938
Total investment proceeds	43,267,215	34,416,203
Cost of investments acquired (long-term only):		
Bonds	(60,271,572)	(35,699,015)
Stocks	(62,810)	(129,920)
Mortgage loans	(2,781,383)	(1,713,512)
Real estate	(166,984)	-
Miscellaneous applications	(624,571)	(47,275)
Total investments acquired	(63,907,320)	(37,589,722)
Net change in contract loans and premiums notes	1,644,656	105,986
Net cash from investments	(22,284,761)	(3,279,505)
Cash from financing and miscellaneous sources		
Net deposits on deposit-type contracts and other insurance liabilities	(70,535)	(11,846)
Other cash provided (applied)	1,158,886	(1,550,912)
Net cash from financing and miscellaneous sources	1,088,351	(1,562,758)
Net change in cash and short-term investments	5,275,812	(10,567,664)
Cash and short-term investments, beginning of year	6,894,850	17,462,514
Cash and short-term investments, end of year	$ 12,170,662	$ 6,894,850

See accompanying notes to the statutory basis financial statements

Note A - Management Action Plan

As of December 31, 2008, certain conditions are present that raise substantial doubt about North Carolina Mutual Life Insurance Company's ("the Company") ability to continue as a going concern. For several years, the Company has experienced operating losses, generated negative cash flows, and experienced a deterioration of policyholders' surplus. As of April 1, 2009 the Company's A.M. Best rating was downgraded to a "B-" and was placed under review. Note L states that the Company's total adjusted capital is below the Company Action Level based on the risk based capital requirement of the National Association of Insurance Commissioners ("NAIC") and the North Carolina Department of Insurance ("NCDOI"). In addition, as discussed in Note C, the Company's portfolio of bonds and common stock at December 31, 2008 contains a net unrealized loss of approximately $7.9 million, which represents a further risk of surplus deterioration. Based on the Company's operating cash flows, this factor could require liquidation prior to potential recovery in the markets, or if the recovery of certain security values do not meet management's expectations.

The Company has filed a comprehensive financial plan with the Insurance Commissioner of North Carolina outlining the Company's plans for attaining the required levels of regulatory capital by December 31, 2009. To date, the Company has not received notification from the commissioner regarding acceptance or rejection of its comprehensive financial plan. The primary components of the plan include initiatives to improve operating profitability, increase the level of policyholders' surplus, as well as reduce the amount of required regulatory capital, thereby improving the Company's risk based capital ratio. In the individual lines, the Company is seeking to reduce the earnings strain associated with new individual business by reducing acquisition costs and increasing the amount of first year business ceded to reinsurers while continuing to service or administer the business. This earnings strain will be further mitigated by increases in individual premium rates that took effect on January 1, 2009. Additionally, the block of 52,000 premium paying life policies from Booker T. Washington Life Insurance Company acquired mid-year 2008 (Note D) are expected to make a substantial contribution to the individual line of business earnings in 2009. As a line, the group business has not contributed an adequate return for the level of capital employed. Therefore, the Company has undertaken a case by case review of profitability, including an analysis of the capital employed by various cases. This review resulted in initiatives to terminate, non-renew, or reduce the risk retention on certain cases. Management expects that these initiatives will improve operating income as well as reduce the amount of required regulatory capital. To further improve earnings, management intends to continue to reduce general expenses including payroll and related costs, technology costs and occupancy costs. The Company has successfully reduced operating expenses during the last three years.

In addition to the operating income improvements, the plan includes non-recurring initiatives which management expects to bolster surplus. The Company has certain assets that management believes can be liquidated resulting in gains to earnings and surplus. The Company also expects to collect on the EDH note receivable (Note D), which currently is valued at zero in the financial statements. Any collections related to this note receivable will contribute to earnings and surplus.

Note A - Management Action Plan (continued)

The viability of the Company is largely dependent on the success of these strategies, and their positive contribution to surplus. Failure to meet capital requirements would expose the Company to regulatory sanctions that may include restrictions on operations and growth, mandatory asset dispositions, and placing the Company under regulatory control.

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Note B - Organization and Significant Accounting Policies

Organization

North Carolina Mutual Life Insurance Company ("the Company") is a mutual insurance company incorporated and domiciled in the State of North Carolina. The Company was founded in 1898, and has since provided life insurance and accident and health products to both individual and group markets on a direct basis and through reinsurance of other primary carriers. The Company is licensed to operate in 22 states and the District of Columbia; however, the Company's license has been restricted in a number of states so that it is unable to write new business in those states. The Company conducts business under the regulatory oversight of the North Carolina Department of Insurance ("NCDOI").

The Company owns a 10.55% interest in Piedmont Investment Advisors, LLC ("Piedmont"), an investment advisory service company, as of December 31, 2008 and 2007.

Basis of Reporting

For regulatory purposes, the Company prepares its financial statements in accordance with accounting practices prescribed or permitted by the NCDOI ("statutory accounting practices"). Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The NAIC Accounting Practices and Procedures Manual ("NAIC Statutory Accounting Practices") has been adopted as a component of prescribed or permitted practices by the state of North Carolina. There are no material differences between statutory surplus as presented in these financial statements as of December 31, 2008 (as prescribed or permitted by the state of North Carolina) and NAIC statutory accounting practices.

The preparation of statutory basis financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates and assumptions.

Statutory accounting practices ("SAP") vary from accounting principles generally accepted in the United States ("GAAP"). The more significant variances from GAAP are as follows:

- For statutory purposes, bonds are generally recorded at amortized cost pursuant to NAIC instructions. For GAAP, such securities are reported at fair value or amortized cost depending on their designation as to trading, available-for-sale or held-to-maturity.
- Common stocks are valued as prescribed by the Securities Valuation Office of the NAIC; while under GAAP, common stocks are reported at fair value.
- For statutory purposes, subsidiaries are carried under the equity method, with the equity in net income of subsidiaries credited or charged directly to the surplus. GAAP would require either consolidation or the equity in net income of subsidiaries to be reported in the income statement.

Note B - Organization and Significant Accounting Policies (continued)

Basis of Reporting (continued)

- Interest related realized gains and losses on debt securities, net of related federal income taxes, are transferred to the interest maintenance reserve ("IMR"). The IMR is a reserve required for statutory purposes, which defers recognition of realized gains and losses resulting from changes in the general level of interest rates. These gains and losses are amortized into investment income over the expected remaining lives of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. This liability is not required under GAAP.
- The asset valuation reserve ("AVR") is a reserve required for statutory purposes, the objective of which is to allow for current and future investment risks. Annual provisions are required based on the carrying values of invested assets as prescribed by the NAIC. Voluntary additions are permitted within certain limits. Changes to the AVR are charged or credited directly to surplus. This liability is not required under GAAP.
- For statutory purposes, changes in deferred income taxes relating to temporary differences between book income for financial reporting purposes and taxable income are recognized as a separate component of gains and losses in surplus rather than included in income tax expense or benefit as would be required under GAAP. Further, deferred tax assets are subject to an admissibility test.
- Certain assets, primarily certain classes of receivables, furniture and equipment and certain other investments are designated as "non-admitted" under statutory accounting practices. The net change in such non-admitted assets during the year is charged or credited directly to surplus.
- Policy acquisition costs are charged to operations in the year such costs are incurred, rather than being deferred and amortized into income as would be required under GAAP.
- Statutory policy reserves are based on mortality and interest assumptions prescribed or permitted by statute, without specific consideration of withdrawals or expenses. Statutory policy reserves generally differ from policy reserves under GAAP, which are based on the Company's estimates of mortality, interest, withdrawals and expenses. The effect, if any, on reserves resulting from changes in valuation basis is recorded directly to surplus rather than included in current operations.
- Premium receipts and benefits on universal life-type contracts are recorded as revenue and expense for statutory purposes. Under GAAP, revenue on universal life-type contracts are comprised of contract charges and fees that are recognized when assessed against the policyholder account balance. Additionally, under GAAP, premium receipts on universal life-type contracts are considered deposits and are recorded as interest-bearing liabilities.

Note B - Organization and Significant Accounting Policies (continued)

Basis of Reporting (continued)

- Generally, amounts applicable to reinsurance ceded for premiums, claims, future policy benefits, unearned premium reserves and claim liabilities have been reported as reductions of these items. Reinsurance premiums, commissions, expense reimbursements and reserves related to assumed reinsurance are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Under GAAP, reinsurance related policy reserves, claims, unearned premium reserves and claim liabilities are recorded as either reinsurance receivables or prepaid reinsurance premiums.

Statement of Financial Accounting Standards No. 157, Fair Value Measurement
In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 157, *Fair Value Measurement* ("FAS 157"), which defines fair value, establishes a framework and hierarchy for measuring fair value, and expands disclosures about fair value measurements. As of December 31, 2008, the NAIC has not acted to adopt or reject FAS 157. The Company has not implemented the disclosure requirements of FAS 157.

Investments in Securities
Investment grade bonds are reported at amortized cost. Non-investment grade bonds are reported at the lower of amortized cost or fair value. Accretion of bond discount and amortization of bond premium is calculated using the interest method. The prospective adjustment method is used to value all mortgage-backed securities. Prepayment assumptions for all single class and multi-class mortgage-backed and asset-backed securities are obtained from broker dealer advices. Realized gains and losses on the disposition of bonds are calculated using the specific identification basis. Generally, such amounts, net of related federal income taxes, are transferred to the IMR.

Common stocks in unaffiliated entities are reported at fair value. Realized gains and losses are calculated using the specific identification basis, and are reported net of related federal income taxes. Changes in the fair value of common stocks, net of related deferred federal income taxes, are reported as a direct adjustment to surplus.

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other than temporary, the investment is written down to its estimated fair value. The determination of an other than temporary decline in estimated fair value includes, in addition to other relevant factors, a periodic assessment of the changes in value relative to cost, determination of the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value, and the financial condition, credit analysis, and future prospects of the issuer. Any such write-downs are reported as net realized losses on investments.

Note B - Organization and Significant Accounting Policies (continued)

Mortgage Loans on Real Estate
Mortgage loans on real estate are reported at the aggregate unpaid balance. Loan values in excess of 75% of the underlying collateral are reported as non-admitted assets. Management continually monitors its investments in mortgage loans for impairment. When it is determined that the Company will be unable to collect all amounts due according to the contractual terms of the mortgage agreement, the excess of the recorded investment over the net value of the collateral is recognized as an impairment by reporting a valuation allowance with a corresponding charge to unrealized losses. Changes in such unrealized losses are included in the calculation of the AVR. Interest income on impaired mortgage loans is recorded on a cash basis. Interest income received in advance is reported as unearned investment income.

Real Estate Investments
At December 31, 2007, all properties owned by the Company are classified as "held for sale". Property held for sale is reported at the lower of depreciated cost or fair value less encumbrances and estimated costs to sell. There were no impairment losses recorded on real estate investments during the years ended December 31, 2008 or 2007. During 2006 the Company entered into a sale-leaseback transaction with an unaffiliated party, as discussed further in Note C.

Cash and Short-term Investments
Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less when purchased. Short-term investments consist of securities with original maturities of one year or less when purchased. Such invested assets are reported at cost, which approximates fair value. The Company maintains certain cash and cash equivalent balances that are not subject to FDIC insurance thresholds.

Contract Loans
Contract loans are reported at the aggregate unpaid principle balance, not exceeding the cash surrender values of the individual policies on which the loans are made. The aggregate unpaid principle balance includes interest income that is past due 90 days or more. Interest income received in advance is reported as unearned investment income.

Other Invested Assets
The Company's investment in Piedmont is reported using the equity method and, as of December 31, 2008 and 2007, the Company's cost basis in this investment is $750,203, with a carrying value of $- and $5,288, respectively (refer also to Note C). Piedmont provides investment management services to the Company in return for a service fee, which amounted to $105,489 and $98,383 for the years ended December 31, 2008 and 2007, respectively.

Note B - Organization and Significant Accounting Policies (continued)

Interest Income Due and Accrued
The Company non-admits investment income due and accrued on bonds if amounts are over 90 days past due, or if the bonds are in or near default. For any mortgage loans in default with interest due and accrued greater than 180 days outstanding, the Company records such interest as a non-admitted asset, with a corresponding charge to surplus. Non-admitted investment income due and accrued, as of December 31, 2008 and 2007, amounts to $14,119 and $318,249, respectively.

Premiums and Considerations
Life insurance premiums are recognized as income over the premium paying period of the related policies. Annuity considerations are recognized as revenue when received. Accident and health premiums are earned ratably over the terms of the underlying insurance or reinsurance contracts or policies. Premiums and considerations received prior to the contractual due date or policy effective date are reported as a liability in the accompanying statutory balance sheets, and are excluded from the calculation of earned premium and considerations. Management routinely evaluates the collectibility of uncollected premiums and writes off any amounts deemed to be uncollectible. During the years ended December 31, 2008 and 2007 write-offs of receivables were insignificant to the Company's financial statements taken as a whole.

Except as disclosed in Note D, the Company accounts for assumed and ceded reinsurance agreements using traditional reinsurance accounting, as prescribed by statutory accounting principles.

The Company does not anticipate investment income as a factor in evaluating the need for a premium deficiency reserve. As of December 31, 2008 and 2007 the Company did not report a premium deficiency reserve.

Electronic Data Processing Equipment and Software
Electronic data processing ("EDP") equipment and software is reported at cost less accumulated depreciation and, along with other furniture and equipment, is depreciated using the straight line or accelerated methods over the estimated useful lives of the assets. EDP equipment is limited to 3% of surplus, subject to certain specified adjustments. Maintenance and repair costs are charged to expense as incurred. There were no changes to the Company's capitalization policy since the prior reporting period. Depreciation expense for the years ended December 31, 2008 and 2007 amounted to $270,308 and $454,140, respectively. Refer to Note J for details regarding a sale-leaseback transaction executed by the Company during 2008.

Other Admitted Assets
The Company reports the cash surrender value of life insurance on certain officers net of related policy loans. Net cash surrender value of officer life insurance included in other admitted assets at December 31, 2008 and 2007 amounted to $8,530,524 and $8,265,212, respectively. Policy loans on these policies amounted to $4,670,041 and $3,749,850 as of December 31, 2008 and 2007, respectively.

Note B - Organization and Significant Accounting Policies (continued)

Aggregate Reserves and Contract Claims Liabilities
Statutory policy reserves are established for all unmatured contractual obligations of the Company arising out of the provisions of the underlying insurance and deposit-type contracts. Where separate benefits are included in the contracts, a reserve for each benefit is established. Contract claims liabilities are established for future benefits or amounts not yet due as of the reporting date, which are expected to arise under claims that have been incurred as of the reporting date.

The Company waives the deduction of deferred fractional premium upon the death of the insured, and any portion of the final premium beyond the date of death is returned to the insured. Surrender values are not promised in excess of the legally computed reserves. The Company holds the unearned premium reserve, which is equal to one-half of the extra premium for the year. As of December 31, 2008 and 2007, the Company had no insurance in force for which the gross premiums are less than the net premiums according to the standard of valuation set by the State of North Carolina. Tabular interest is determined by formula as prescribed by the NAIC. Tabular interest on funds not involving life contingencies is determined as the product of a guaranteed rate of interest and the amount of funds subject to such valuation rate.

Considerable variability is inherent in estimating aggregate reserves and contract claims liabilities; however, management believes that the reported reserves are sufficient to cover the ultimate cost of providing contractual benefits. Changes in reserves are generally reported as a component of current operations, except for changes due to a change in the valuation basis, such as changes in interest rate, mortality and morbidity assumptions, or reserving methods. Reserve strengthening or destrengthening resulting from a change in valuation basis is recorded directly to surplus (see Note D).

Policyholder Dividends
For the years ended December 31, 2008 and 2007, premiums under individual life participating policies represented 52% and 88%, respectively, of total individual premiums earned. The Company accounts for policyholder dividends using the accrual basis, as prescribed by statutory accounting principles.

Dividends for payment subsequent to plan anniversary dates are accrued based on dividend formulas, which have been approved by the Company's Board of Directors in accordance with the bylaws of the Company. The Company is restricted by the NCDOI from the payment of any dividends to its policyholders if the NCDOI determines, from examination of the Company's financial condition, that the payment of future dividends would impair the financial soundness of the Company or be detrimental to its policyholders. As of December 31, 2008 and 2007, there are no restrictions on the payment of policyholder dividends.

Note C - Investments

Bonds and Common Stock
The carrying value and estimated fair value the Company's investment in bonds and common stocks at December 31, 2008 and 2007 are as follows:

December 31, 2008	Cost / Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. governments and agencies	$ 5,386,842	$ 634,837	$ -	$ 6,021,679
Special revenue and assessment obligations	104,950	50	-	105,000
Public utilities	1,023,718	18,560	(200,057)	842,221
Mortgage-backed securities	43,372,332	499,952	(2,283,219)	41,589,065
Industrial and miscellaneous	54,490,388	550,524	(7,026,006)	48,014,906
Total bonds	$ 104,378,230	$ 1,703,923	$ (9,509,282)	$ 96,572,871
Common stock	$ 1,088,943	$ 656,417	$ (727,517)	$ 1,017,843

December 31, 2007	Cost / Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. governments and agencies	$ 16,604,781	$ 362,131	$ (157,652)	$ 16,809,260
Special revenue and assessment obligations	189,683	1,255	-	190,938
Public utilities	1,019,139	48,335	-	1,067,474
Mortgage-backed securities	25,075,465	312,625	(480,598)	24,907,492
Industrial and miscellaneous	40,743,713	385,537	(665,524)	40,463,726
Total bonds	$ 83,632,781	$ 1,109,883	$ (1,303,774)	$ 83,438,890
Common stock	$ 345,928	$ 560,592	$ (36,599)	$ 869,921

The following table provides a breakdown, by type and duration, of the debt securities owned by the Company that are in an unrealized loss position at December 31, 2008 (nearly all of the unrealized losses on common stock are greater than 12 months in duration):

	Less than 12 months		Greater than 12 months		Total	
	Fair value	Unrealized Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
Public utilities	$ 740,000	$ (200,057)	$ -	$ -	$ 740,000	$ (200,057)
Mortgage-backed securities	18,231,483	(1,094,459)	5,219,657	(1,188,760)	23,451,140	(2,283,219)
Industrial and miscellaneous	18,721,500	(4,370,477)	12,141,131	(2,655,529)	30,862,631	(7,026,006)
Total bonds	$ 37,692,983	$ (5,664,993)	$ 17,360,788	$ (3,844,289)	$ 55,053,771	$ (9,509,282)

Note C - Investments (continued)

Bonds and Common Stock (continued)

The following table provides a breakdown, by type and duration, of the securities owned by the Company that are in an unrealized loss position at December 31, 2007 (all of the unrealized losses on common stock are less than 12 months in duration):

	Less than 12 months		Greater than 12 months		Total	
	Fair value	Unrealized Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
U.S. governments and agencies	$ -	$ -	$ 3,349,446	$ (42,052)	$ 3,349,446	$ (42,052)
Mortgage-backed securities	3,354,674	(104,946)	3,517,391	(375,649)	6,872,065	(480,595)
Industrial and miscellaneous	14,959,120	(589,288)	6,981,627	(191,839)	21,940,747	(781,127)
Total bonds	$ 18,313,794	$ (694,234)	$ 13,848,464	$ (609,540)	$ 32,162,258	$ (1,303,774)

Bond investments with continuous losses for less than twelve months were greatly impacted by the market dislocation experienced in 2008. As of 2008, the Company's unrealized losses on bonds and common stocks consists of 59 and 4 securities, respectively. Based upon management's consideration of the factors disclosed in Note B, management believes that these securities are not other-than-temporarily impaired. During the years ended December 31, 2008 and 2007 the Company recorded charges for other-than-temporary impairment amounting to $0 and $450,552, respectively.

The amortized cost and estimated NAIC fair value of bonds at December 31, 2008, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Carrying Value	NAIC Fair Value
Due within 1 year	$ 1,721,132	$ 1,747,767
Over 1 year through 5 years	12,381,594	10,909,774
Over 5 years through 10 years	25,417,023	23,206,558
Over 10 years	21,486,149	19,119,707
Mortgage-backed securities	43,372,332	41,589,065
Total by maturity	$ 104,378,230	$ 96,572,871

Proceeds from the sale or maturity of bonds during the year ended December 31, 2008 amounted to $41,247,258; gross gains of $947,248 and gross losses of $1,107,436 were realized on those transactions. Proceeds from the sale or maturity of bonds during the year ended December 31, 2007 amounted to $31,871,321; gross gains of $701,024 and gross losses of $663,275 were realized on those transactions. Gross realized gains and gross realized losses on the disposition of all other securities during the year ended December 31, 2008 amounted to $0 and $26,250, respectively. Gross realized gains and gross realized losses on the disposition of all other securities during the year ended December 31, 2007 amounted to $0 and $0, respectively.

Note C - Investments (continued)

Bonds and Common Stock (continued)
Various state insurance departments require the Company to maintain deposits with acceptable financial institutions in cash or acceptable securities. This requirement is met by the deposit of securities with book values amounting to approximately $4,898,000 and $4,902,000 as of December 31, 2008 and 2007, respectively.

During 2008, the Company invested in notes issued by the Aegis Alabama Venture Fund, LP, ("the Fund") with a due date of March 1, 2019. The Company's cost basis amounted to $3,045,685, and is included as a component of industrial and miscellaneous bonds. Under the terms of the note agreement, the Fund is obligated to repay principal and interest in two forms. (1) During 2008, the Company received a cash payment of $1,265,803 representing prepaid interest on the notes. The Company has deferred $1,189,088 of such interest as a component of unearned interest income at December 31, 2008, and will amortize such amounts to income over the life of the investment. (2) The Company will earn premium tax credits for use against premium tax liabilities incurred in the State of Alabama at pre-determined amounts from 2011 through 2019. The premium tax credits are offered by the State of Alabama under the CAPCO laws (Certified Capital Company Program) of the State to offset premium tax liabilities in the state on a dollar for dollar basis. The recoverability of this investment is contingent upon the Company's ability to generate sufficient premium volume in the State of Alabama (refer to Note A), or to dispose of the investment to another eligible insurer.

At December 31, 2008 and 2007, the Company's investment in common stocks consisted of 15 securities and 13 securities, respectively. Of the securities owned at December 31, 2008 and 2007, one individual security comprised approximately $967,000 and $801,000, respectively, of the aggregate fair value of the Company's investment in common stocks.

Mortgage Loans on Real Estate
As of December 31, 2008, the Company holds investments in mortgage loans on real estate located in the cities of Raleigh and Durham, each located in the State of North Carolina, representing approximately 55% of the aggregate reported investment in mortgage loans, and 4% of total admitted assets. Approximately 96% of the Company's mortgage loan portfolio represents properties in the State of North Carolina.

During the year ended December 31, 2008 the Company originated two mortgage loans with original principal balances of $512,534, at a rate of 6.95% per annum. During the year ended December 31, 2007 the Company originated one mortgage loan, at a rate of 7.25% per annum. The maximum and minimum lending rates for mortgage loans originated during the year ended December 31, 2008 were as follows:

	2008	
	Min.	Max.
Mortgage loans	6.95%	6.95%

Note C - Investments (continued)

Mortgage Loans on Real Estate (continued)
The maximum percentage of any one loan to the value of the security at the time of loan, exclusive of insured, guaranteed or purchased money mortgages, was 75%. At December 31, 2008 and 2007, the Company has non-admitted $130,013 and $104,323, respectively, of mortgage loan investments with loan values in excess of 75% of the underlying collateral. There were no tax assessments or amounts advanced included in the mortgage loan balance at December 31, 2008 and 2007.

At December 31, 2008 and 2007, the Company held mortgage loans (with past-due interest greater than 180 days) with principal balances amounting to $645,025 and $1,139,104 respectively, and past-due interest amounting to $161,788 and $318,249, respectively. As of December 31, 2008 and 2007, management has identified mortgage loans with outstanding principal balances of $779,981 and $1,633,173, respectively, for which they believe it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the underlying mortgage agreements. Allowances for credit losses of $0 and $63,040, respectively have been established as of December 31, 2008 and 2007. The Company has not recognized any interest income during the period that such loans have been impaired.

Statutory Investment Valuation Reserves
The primary components of the changes in the IMR and AVR for the years ended December 31, 2008 and 2007 are as follows:

Interest maintenance reserve:	2008	2007
Balance at beginning of year	$ (550,671)	$ (313,812)
Realized gains (losses), net of federal income tax	246,935	166,609
Amortization of investment losses, net	(215,296)	(403,468)
Balance at end of year (limited to $0)	$ -	$ -

Asset valuation reserve:	2008	2007
Balance at beginning of year	$ 746,400	$ 1,013,774
Realized gains (losses), net of federal income tax	(421,499)	1,454,388
Unrealized gains (losses), net of federal income tax	66,032	39
Basic contribution	172,446	150,891
Additional contribution	44,992	(413,892)
Accumulated balances	608,371	2,205,200
Adjustment to maximum allowable reserve	-	(1,458,801)
Balance at end of year	$ 608,371	$ 746,399

Note C - Investments (continued)

Real Estate
During 2006, the Company sold two properties with an aggregate book value (at the time of sale) of approximately $3,918,000 for an aggregate purchase price of $11,400,000. Expenses incurred in connection with the sale amounted to approximately $319,000. The Company entered into a sale-leaseback agreement with the buyer for a portion of the properties for a minimum term of 13 years from the closing date (refer to Note J). The agreement is non-cancelable; however, the Company has the option to terminate the lease in the event they decide to move into a new headquarters building planned to be built by an entity related to the landlord, but in no event any earlier than the end of the third lease year. The original sale-leaseback agreement included certain revenue guarantees for a portion of the properties sold, which was then leased by an unaffiliated tenant. As a result of the guarantees, as of December 31, 2006 the Company had deferred approximately $998,000 of the total $7,163,000 gain on sale.

During the first quarter of 2007, the Company and the buyer executed an agreement to void the aforementioned guarantees included in the original sale-leaseback agreement. In connection therewith, the Company executed a new lease agreement with the landlord, whereby the Company is obligated to lease the previously guaranteed portion of the properties sold in the event the current tenant of that portion of the property elects to terminate or non-renew their current lease agreement. The estimated maximum obligation associated with this contingent lease agreement amounts to approximately $842,000, and covers the period November 2007 through December 2011. As the revenue guarantees were voided, during the first quarter of 2007 the Company recognized the $998,000 deferred gain reported at December 31, 2006.

Other Invested Assets
During 2007, the Company sold a portion of its interest in Piedmont to an unaffiliated entity, reducing the Company's ownership interest in Piedmont from 25% to 10.55%. Proceeds from the sale amounted to approximately $1,585,000, and the Company recorded a net realized gain on sale of approximately $585,000.

Note C - Investments (continued)

Investment Income
The primary components of net investment income for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Investment income:		
Bonds	$ 5,820,923	$ 4,819,256
Common stock	34,796	34,203
Mortgage loans	720,661	832,743
Real estate	27,841	13,468
Cash and short-term investments	770,695	318,731
Contract loans	566,365	330,427
Other	27,326	19,024
Gross investment income	7,968,607	6,367,852
Investment expenses	(621,761)	(448,270)
Investment taxes, licenses and fees	(1,287)	(12,746)
Interest expense	(88,055)	(146,062)
Depreciation on real estate	(130)	(780)
Net investment income	$ 7,257,374	$ 5,759,994

Note D - Insurance Activities

Premiums and Annuity Considerations
The Company's products include traditional life, supplemental life, accidental death and dismemberment ("AD&D"), long-term and short-term disability and group accident and health ("A&H"). The primary geographic locations as regards to direct statutory premiums and annuity considerations written by the Company during the year ended December 31, 2008 were Illinois (27.62%), North Carolina (27.58%), Georgia (7.24%), and California (6.38%). There were no other states comprising more than 5% of the Company's direct statutory premiums and annuity considerations written. The Company distributes its products using both exclusive and independent agents, direct response methods, third-party administrators ("TPA") and managing general agents ("MGA"), and through reinsurance of other primary carriers.

Note D - Insurance Activities (continued)

Premiums and Annuity Considerations (continued)
Premium and annuity considerations earned by the Company for the years ended December 31, 2008 and 2007, by line of business, are as follows:

December 31, 2008	Direct	Assumed	Ceded	Net
Industrial life	$ 562,536	$ 6,581,786	$ (6,477,620)	$ 666,702
Ordinary life	12,838,327	35,955,906	(33,289,230)	15,505,003
Individual annuities	387,575	-	-	387,575
Group life	6,750,180	16,128,308	(3,810,818)	19,067,670
Group A&H	2,968,467	685,457	(2,355,422)	1,298,502
Group - other	385,587	797	-	386,384
Totals	$ 23,892,672	$ 59,352,254	$ (45,933,090)	$ 37,311,836

December 31, 2007	Direct	Assumed	Ceded	Net
Industrial life	$ 622,094	$ -	$ (640,154)	$ (18,060)
Ordinary life	13,699,313	2,031,407	(2,702,932)	13,027,788
Individual annuities	340,101	-	-	340,101
Group life	8,323,426	14,361,520	(4,863,331)	17,821,615
Group A&H	25,139,179	271,026	(10,279,261)	15,130,944
Group - other	430,682	810	-	431,492
Totals	$ 48,554,795	$ 16,664,763	$ (18,485,678)	$ 46,733,880

The aggregate amount of direct premium written through TPAs and MGAs for the years ended December 31, 2008 and 2007 is summarized as follows:

- Employers Direct Health, Inc.; 5050 Spring Valley Road, Dallas, TX 75244; FEIN #75-2322062; non-exclusive; types of business include group medical, dental and life; types of authority granted include underwriting, premium collection, claims payment and claims adjustment; direct premiums written/produced during the years ended December 31, 2008 and 2007 amounted to $0 and $561,242, respectively.
- Pacific Dental Benefits, Inc.; 1390 Willow Pass Rd., Concord, CA 94520; FEIN #94-3252033; non-exclusive; types of business include group dental; types of authority granted include underwriting, premium collection, claims payment and claims adjustment; direct premiums written/produced during the years ended December 31, 2008 and 2007 amounted to $516,587 and $24,144,675 respectively.

Note D - Insurance Activities (continued)

Premiums and Annuity Considerations (continued)

- Vision Financial Services, Inc.; 17 Church St./P.O. Box 506, Keene, NH 03431; FEIN #02-0430860; non-exclusive; types of business include universal life; types of authority granted include underwriting, premium collection, claims payment and claims adjustment; direct premiums written/produced during the years ended December 31, 2008 and 2007 amounted to $810,797 and $834,427, respectively.
- Total Plan Services, Inc.; 14001 Dallas Parkway North, Suite 700, Dallas, TX 75240; FEIN #75-1946277; non-exclusive; types of business include group medical and life; types of authority granted include underwriting, premium collection, claims payment and claims adjustment; direct premiums written/produced during the years ended December 31, 2008 and 2007 amounted to $735,501 and $364,627, respectively.
- Benefit and Risk Management Services; 10860 Gold Center Drive, Rancho Cordova, CA 95670; FEIN #68-0306908; non-exclusive; types of business include group medical and life; types of authority granted include underwriting, premium collection, claims payment and claims adjustment; direct premiums written/produced during the years ended December 31, 2008 and 2007 amounted to $1,085,485 and $0, respectively.
- Direct premiums written/produced by all other TPAs and MGAs during the years ended December 31, 2008 and 2007 amounted to $347,250 and $9,317, respectively. No other individual TPAs or MGAs wrote/produced direct premiums greater than 5% of policyholders' surplus.

Premium considerations deferred and uncollected, net of reinsurance, on ordinary life policies in force as of December 31, 2008 and 2007 are reported net of loading of $2,547,137 and $3,105,169, respectively. Loading generally includes allowances for acquisition costs and other expenses, but also includes the differences in mortality and interest assumptions utilized for pricing and reserving purposes.

During 2008, the Company entered into two separate permanent indemnity 100% coinsurance treaties to assume the closed block of premium paying ordinary whole life business from Booker T. Washington Insurance Company and subsidiary Universal Life Insurance Company (hereafter referred to as "BTW"). The block includes 52,000 policies with annual premiums of approximately $5.0 million and total reserves of $35.2 million. Under a separate agreement, the Company will provide certain administrative services for the assumed block. In connection with the transaction, the company entered into a separate but related combination indemnity coinsurance/modified coinsurance treaty pursuant to which the Company retrocedes 90% of the block to an authorized reinsurer, London Life. The ceding commission paid by the Company was $6.8 million and the ceding commission received from the reinsurer on the retrocession was $6.7 million. Under terms of the retrocession treaty, the Company established a modified co-insurance trust for the benefit of London Life to which certain invested assets of the Company were pledged. As of December 31, 2008, the total market value of the trust was approximately $22.4 million. The Company retained the right to recapture the block at any time, subject to 90 days written notice at anytime after December 31, 2008.

Note D - Insurance Activities (continued)

Premiums and Annuity Considerations (continued)
During 2006, the Company converted an aged premium receivable balance, due from Employers Direct Health, Inc. ("EDH"), amounting to $5,089,709 into a note receivable. The terms of the note call for EDH to make monthly installments of $25,000 during the period September 2006 through February 2009, with a balloon payment on March 1, 2009 equal to the balance of any principal and interest then outstanding. The note bears interest at a rate of 4% per annum, beginning August 1, 2007. The note agreement also assigns to the Company certain fees and recoveries normally due to EDH during the normal course of business. EDH did not honor the schedule balloon payment on March 1, 2009. At the inception of the note, management evaluated the collectibility of the balance due from EDH and determined that full collection of such amounts was doubtful; accordingly an allowance was established as of December 31, 2005. The current allowance exceeds the amount of the balloon payment; therefore, the failure of EDH to make such payment has no impact on reported surplus or net income. Future payments, if any, will result in a positive contribution earnings and surplus. At December 31, 2008 and 2007, the composition of the note receivable is as follows:

	2008	2007
Note receivable at beginning of year	$ 2,098,238	$ 3,479,470
Cash collected	(1,163,991)	(432,274)
Assignments applied to reduce balance	(13,786)	(948,958)
Note receivable at end of year	920,461	2,098,238
Allowance for uncollectible amounts	(920,461)	(1,194,000)
Non-admitted amounts	-	(904,238)
Net note receivable at end of year	-	-

Benefits, Policy Reserves and Claims Reserves
Contract claims payable as of December 31, 2008 and 2007 are comprised of the following:

	2008	2007
Life policies	$ 8,584,678	$ 7,987,696
Accident and health policies	180,653	907,373
Total contract claims payable	$ 8,765,331	$ 8,895,069

At December 31, 2008 and 2007, approximately 85% and 88%, respectively, of annuity actuarial reserves and deposit liabilities are recorded at book value without adjustment. There are no reconciling differences between the amounts disclosed herein and Exhibit 5 as reported in the Company's Annual Statement.

Note D - Insurance Activities (continued)

Reserve Destrengthening

During 1984, the Company reduced its statutory life reserves to the minimum required when computed under CRVM method based on the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits. The effect was to increase surplus and decrease life reserves by $2,963,067 at the time of the destrengthening.

Based on the fact that the destrengthening of the policy reserves constituted a change in the policy contract without the consent of the policyholder, the NCDOI required that the Company's surplus be appropriated for the approximate amount of the destrengthening. Accordingly, the Company appropriated $2,963,067 of surplus and, to take into effect the estimation of policy terminations, reduced this amount to approximately $751,504 and $786,520 as of December 31, 2008 and 2007, respectively. Such remaining amounts are included as a component of special surplus funds in the accompanying statutory balance sheets.

Reinsurance

The Company assumes certain ordinary life, group life and group A&H contracts from other insurance companies. The amount of premium income, benefits incurred, commissions and expenses incurred and face amount assumed for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Premium income earned	$ 59,352,254	$ 16,664,763
Benefits incurred	17,991,045	13,793,708
Commissions and expenses incurred	8,202,049	1,549,863
Face amount assumed	7,704,536,671	5,276,706,217

Certain of the assumed reinsurance contracts, under which the Company assumes yearly renewable term group life, do not meet certain risk transfer criteria. Accordingly, for affected new and renewal treaties with an effective or anniversary date beginning during the year ended December 31, 2005, the Company began utilizing deposit accounting. Prior to 2005, such treaties were accounted for using reinsurance accounting. During the years ended December 31, 2008 and 2007, the Company has recorded a net loss and a net gain of $(54,828) and $38,787, respectively, to reflect the net estimated impact of all cases accounted for using the deposit method.

During the year ended December 31, 2005 the Company entered into two treaties with North America Life Insurance Company of Texas ("NAL"). Pursuant to the first treaty, the Company reinsured on a permanent indemnity coinsurance basis 100% of a certain block of final expense business in force as of March 31, 2005. In connection therewith, the Company paid NAL a commission of $900,000. Pursuant to the second treaty, the Company reinsured on a permanent indemnity modified coinsurance basis 90% of a certain block of final expense business written on or after April 1, 2005. Under a separate agreement, the Company provides certain administrative services for the two blocks assumed from NAL.

Note D - Insurance Activities (continued)

Reinsurance (continued)
In connection with the transactions with NAL, during 2005 the Company entered a separate but related combination indemnity coinsurance/modified coinsurance treaty pursuant to which the Company retroceded 100% of the NAL in force block to Quanta Life Reinsurance Ltd. ("Quanta"), a Bermuda-based insurance company. This transaction resulted in an initial surplus enhancement of $1,000,000, which was reported net of the aforementioned $900,000 NAL commission and deferred as a component of special surplus funds and is recognized on a net of tax basis as earnings emerge from the business reinsured, in accordance with statutory accounting practices. During each of the years ended December 31, 2008 and 2007, the Company recognized $20,000 of the previously deferred commissions. At December 31, 2008 the Company's financial statements reflect reserve credits and recoverables, respectively, for unpaid losses due from Quanta amounting to $721,427 and $217,645, respectively. At December 31, 2007 the Company's financial statements reflect reserve credits and recoverables, respectively, for unpaid losses due from Quanta amounting to $1,371,027 and $64,259, respectively.

The Company cedes certain industrial life, ordinary life, group life and A&H business to other insurance companies under reinsurance agreements. The Company remains contingently liable to policyholders in the event the assuming companies are unable to meet their obligations under these reinsurance agreements. The amount of reinsurance recoverable on paid and unpaid losses, reserve credit taken, premium income earned, benefits incurred, commissions and expenses incurred and face amount ceded to other insurance companies for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Reinsurance recoverable on paid losses	$ 1,523,226	$ 1,117,342
Reinsurance recoverable on contract claims payable	2,770,944	3,350,727
Aggregate reserve credit taken	44,668,033	39,852,660
Premium income earned	45,933,090	18,485,678
Benefits incurred	7,216,608	14,203,071
Commissions and expenses incurred	12,147,768	5,036,885
Face amount ceded	932,474,000	2,364,064,306

As of December 31, 2008 and 2007, approximately 16% and 53%, respectively, of the Company's reinsurance recoverable on paid losses, and approximately 83% and 96%, respectively, of the ceded reserve credit taken by the Company relate to Max Re Ltd. ("Max Re"), a Bermuda-based unauthorized reinsurer. The balances due from Max Re at December 31, 2008 and 2007 are secured by a trust agreement, under which the Company is the benefactor of approximately $43,784,780 and $45,464,475, respectively.

Note E - General Insurance Expenses

The major components of general insurance expenses incurred during the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Rent	$ 1,386,692	$ 1,339,470
Salaries and wages	6,725,604	9,200,273
Contributions for benefit plans for employees	1,036,207	1,079,251
Other employee welfare	209,053	225,598
Other agent welfare	10,866	-
Legal fees and expenses	128,189	248,183
Fees of public accountants and consulting actuary	693,635	484,281
Traveling expenses	420,213	599,600
Advertising	362,537	734,106
Postage, express, telegraph and telephone	494,646	626,022
Printing and stationery	203,307	236,528
Rental of equipment	176,698	261,943
Cost or depreciation of EDP equipment and software	661,539	1,012,416
Sundry general expenses	991,075	921,269
Group service and administrative fees	1,896,689	871,486
Real estate expenses	133,736	251,681
Other expenses	507,004	1,404,641
Allocation of general expenses to investment expense	(469,685)	(448,270)
Total general insurance expenses	$ 15,568,005	$ 19,048,478

Note F - Employee Post-Retirement Benefit Plans

Defined Benefit Pension Plan
The Company has a defined benefit pension plan covering substantially all of its employees and exclusive agents. The benefits are based on years of service and employees' final highest five-year average compensation. The participants are entitled to monthly pension benefits beginning at normal retirement age (65) or the fifth anniversary of plan participation, if later. The Company's funding and accounting policies are to contribute the minimum required amount that can be deducted for federal income tax purposes and to charge such contributions to expense in the year they are deductible for income tax purposes.

No changes were made to the Company's defined benefit pension plan ("the DB plan") during 2008 that would require disclosure. The following changes were made to the DB plan during 2007 and have been reflected at December 31, 2007 for these disclosures. An early retirement window was offered late in the year to active participants of the DB plan who were at least 52 years of age as of December 31, 2007, with 20 or more years of service. Eighteen of the twenty-two eligible participants accepted the offer. This offering provided two benefit enrichments; an unreduced, subsidized early commencement annuity (or alternatively an unsubsidized lump sum cash payment) and an additional flat $25,000 lump sum grant. The value of the enhanced window benefits were recognized as special termination benefits and as such were immediately recognized as a current period expense (not offset by the outstanding transition asset as were the other expense components). The large amount of lump sum payments also triggered a settlement for the DB plan. This brought about a pro-rata reduction in both the unrecognized loss and the unrecognized transition asset. The net result for the DB plan was that $660,742 was recognized as pension expense in 2007, due solely to the special termination benefits. No current pension expense was recorded in 2008.

The Company uses a December 31 measurement date for the DB plan, and all plan assets are maintained in a separate trust. A summary of assets, obligations and components of the net periodic benefit costs for the pension plan is as follows at December 31, 2008 and 2007:

	2008	2007
Change in benefit obligation:		
Projected benefit obligation, beginning of year	$ 8,990,977	$ 10,099,210
Service cost	518,442	301,122
Interest cost	456,701	481,411
Actuarial losses	(884,759)	(863,809)
Plan amendments	-	-
Settlements	-	1,269,233
Benefits paid	(797,719)	(2,296,190)
Projected benefit obligation, end of year	$ 8,283,642	$ 8,990,977

Note F - Employee Post-Retirement Benefit Plans (continued)

Defined Benefit Pension Plan (continued)

	2008	2007
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 9,829,735	$ 11,758,732
Actual return on plan assets	(1,240,304)	367,193
Benefits paid	(797,719)	(2,296,190)
Fair value of plan assets, end of year	$ 7,791,712	$ 9,829,735
Funded status:	$ (491,930)	$ 838,758
Unamortized prior service costs	759,407	866,848
Unrecognized actuarial net (loss) gain	1,569,439	626,172
Unrecognized net transition asset	(2,044,483)	(2,539,345)
(Benefit liability) prepaid asset, end of year	$ (207,567)	$ (207,567)
Benefit obligation for nonvested employees	$ 367,543	$ 688,441
Components of net periodic benefit cost:		
Service cost	$ 518,442	$ 301,122
Interest cost	456,701	481,411
Expected return on plan assets	(587,722)	(730,601)
Amortization of transition obligation	(494,862)	(159,373)
Amortization of actuarial (gain) loss	-	-
Amortization of prior service cost	107,441	107,441
One-time settlement charge	-	-
Total net periodic benefit	$ -	$ -

The Company accrued a benefit liability of $207,567 at both December 31, 2008 and 2007. The accumulated benefit obligation as of December 31, 2008 or 2007 is $7,440,977 and $7,081,577, respectively.

The assumptions used in determining the actuarial present value of the projected benefit obligations above, as of December 31, 2008 and 2007, are as follows:

	2008	2007
Weighted avg. assumptions as of December 31:		
Discount rate	6.00 %	6.00 %
Rate of compensation increase	4.25 %	4.75 %
Expected long-term rate of return on plan assets	7.00 %	7.00 %

Note F - Employee Post-Retirement Benefit Plans (continued)

Defined Benefit Pension Plan (continued)
As of December 31, 2008 and 2007, the plan's invested assets at fair value were comprised of approximately 41% and 40% common stock, respectively, 49% and 48% U.S. government obligations, respectively, and 10% and 10% cash and short-term investments, respectively. The target asset allocation for the plan's assets is 50% fixed income securities, 45% equity securities and 5% cash and short-term investments. The primary investment objectives are to preserve capital and meet or exceed returns of key market indices. The investment of plan assets is subject to self-imposed concentration limitations. The expected long-term rate of return on plan assets is determined based upon historical returns in the equity market, as well as current yields on long-term fixed income securities.

Based on December 31, 2008 actuarial projections, the Company estimates that there will be no contributions to the Plan during the year ending December 31, 2009. At December 31, 2008 the estimated benefits to be paid in each of the next five years, and in the aggregate for the five years thereafter, are as follows:

Year	Amount
2009	$ 357,218
2010	359,485
2011	585,706
2012	947,271
2013	503,244
Thereafter	4,544,545
Total	$ 7,297,469

Defined Contribution 401(k) Plan
The Company sponsors a defined contribution plan covering substantially all employees of the Company. All employees of the Company are eligible to participate in the plan upon completing one-half year of service and reaching the age of 20. The Company's Board of Directors controls and manages the operation and administration of the plan, while American United Life Insurance Company serves as trustee of the plan assets. Participants may contribute up to 25% of their eligible earnings on a pre-tax basis, subject to certain IRC limitations. The Company may elect to make matching contributions at its discretion; however, there were no such contributions during the years ended December 31, 2008 or 2007.

Deferred Compensation Plan
The Company provides executive salary continuation agreements to key executives, as determined by the Board of Directors. The agreements provide for payments to be made over a 10-year period subsequent to the executives' retirement, total disability or death. The plan provides for deferral of compensation and payment by the Company of other postretirement benefits. Vesting of benefits occurs progressively based upon years of service, with full vesting occurring upon completion of 8 years.

Note F - Employee Post-Retirement Benefit Plans (continued)

Deferred Compensation Plan (continued)
The Company uses a December 31 measurement date for the plan, and all plan assets, which primarily consist of the officer life insurance policies discussed in Note B, are maintained in a separate trust. A summary of assets, obligations and assumptions of the deferred compensation plan, as of December 31, 2008 and 2007, is as follows:

	Deferred Compensation		Other Benefits	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 1,415,101	$ 1,807,638	$ 2,426,992	$ 2,175,815
Service cost	134,493	13,505	232,615	18,598
Interest cost	94,103	100,153	146,611	116,949
Actuarial gain (loss)	103,062	(433,914)	(863)	53,592
Benefits paid	(168,796)	(160,975)	(436,811)	(325,549)
Effects of curtailments, settlements and termination benefits	-	88,694	-	387,587
Benefit obligation, end of year	$ 1,577,963	$ 1,415,101	$ 2,368,544	$ 2,426,992
Benefit obligation for non-vested employees	$ -	$ 124,136	$ 223,310	$ 444,114
Change in plan assets:				
Fair value of plan assets at beginning of year	$ -	$ -	$ -	$ -
Employer contribution	168,796	160,975	436,811	325,549
Benefits paid	(168,796)	(160,975)	(436,811)	(325,549)
Fair value of plan assets at year end	$ -	$ -	$ -	$ -
Funded status:	$ (1,577,963)	$ (1,415,101)	$ (2,368,544)	$ (2,426,992)
Unrecognized net gain (loss)	115,139	12,077	568,481	603,646
Net amount recognized	$ (1,462,824)	$ (1,403,024)	$ (1,800,063)	$ (1,823,346)
Intangible assets	$ -	$ -	$ -	$ -
Components of net periodic benefit cost:				
Service cost	$ 134,493	$ 13,505	$ 232,615	$ 18,598
Interest cost	94,103	100,153	146,611	116,949
Amortization of actuarial (gain) loss	-	22,654	34,302	28,397
Total net periodic benefit cost	$ 228,596	$ 136,312	$ 413,528	$ 163,944

Note F - Employee Post-Retirement Benefit Plans (continued)

Deferred Compensation Plan (continued)
Accrued benefit costs of $3,958,985 and $4,049,660 at both December 31, 2008 and 2007 have been recognized in the accompanying statutory balance sheets. Amounts accrued for unrecognized actuarial gains (losses) at December 31, 2008 and 2007 amount to $488,532 and $615,723, all of which have been non-admitted.

The assumption used in determining the actuarial present value of the projected benefit obligations above, as of December 31, 2008 and 2007, are as follows:

	2008	2007
Weighted avg. assumptions as of December 31:		
Discount rate	6.00 %	6.00 %
Rate of compensation increase	4.75 %	4.75 %

Note G - Income Taxes

The provisions for federal income taxes for the years ended December 31, 2008 and 2007 is comprised as follows:

	2008	2007
Change in net deferred income tax	$ (1,305,620)	$ (960,970)
Statutory income tax expense (benefit)	$ (1,305,620)	$ (960,970)

As of December 31, 2008 and 2007, there are no federal income taxes incurred available for recoupment in the event of future net losses. At December 31, 2008 and 2007, the Company has net operating loss carryforwards of $19,861,326 and $14,029,923 available in the event of future taxable income. Such carryforwards originated during the years 2004 through 2008.

The components of the net deferred tax asset at December 31, 2008 and 2007 are as follows:

	2008	2007
Gross deferred tax assets	$ 14,184,352	$ 13,264,632
Gross deferred tax liabilities	1,964,912	2,270,679
Net deferred tax asset	12,219,440	10,993,953
Deferred tax assets non-admitted	(12,219,440)	(10,993,953)
Net admitted deferred tax asset	$ -	$ -
Change in deferred tax assets non-admitted	$ (1,225,487)	$ 339,373

Note G - Income Taxes (continued)

The component of gross deferred tax assets and gross deferred tax liabilities, as of December 31, 2008 and 2007, are as follows:

	2008	2007
Deferred tax assets:		
Reserves	$ 1,989,728	$ 3,039,390
Deferred compensation	1,109,382	1,096,973
Proxy deferred policy acquisition costs	1,626,699	1,074,110
Non-admitted assets and depreciation	774,406	1,093,090
Loading	866,026	1,098,528
Net operating loss carryforward	6,752,851	4,770,174
Other	1,065,260	1,092,367
Gross deferred tax assets	14,184,352	13,264,632
Less: Non-admitted deferred tax assets	(12,219,440)	(10,993,953)
Net deferred tax assets	1,964,912	2,270,679
Deferred tax liabilities:		
Deferred and uncollected premium	1,781,379	2,087,146
Unrealized capital gains	183,533	183,533
Gross deferred tax liabilities	1,964,912	2,270,679
Net admitted deferred tax asset	$ -	$ -

The change in net deferred tax assets, prior to consideration of any non-admitted amounts, as of December 31, 2008 and 2007, is as follows:

	2008	2007	Change
Gross deferred tax assets	$ 14,184,352	$ 13,264,632	$ 919,720
Gross deferred tax liabilities	1,964,912	2,270,679	(305,767)
Net deferred tax assets	$ 12,219,440	$ 10,993,953	1,225,487
Change in net unrealized capital gains and losses, net of federal income taxes			80,133
Change in net deferred tax assets			$ 1,305,620

Note G - Income Taxes (continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before federal income taxes. The significant items causing this difference, as of December 31, 2008 are as follows:

	2008	2007
Federal income tax at statutory rate (34%)	$ (1,499,341)	$ (964,870)
Interest maintenance reserve	(73,201)	(79,749)
Non-admitted assets	826,353	661,103
Other	(559,431)	(577,454)
Statutory income tax expense (benefit)	$ (1,305,620)	$ (960,970)

Note H - Non-admitted Assets

The composition of non-admitted assets as of December 31, 2008 and 2007, and the change in non-admitted assets for the years then ended, are as follows:

	2008	2007	Change
Investment income due and accrued	$ 14,119	$ 107,555	$ (93,436)
Mortgage loans	130,013	104,323	25,690
Other invested assets	397,001	-	397,001
Reinsurance receivable	3,736	455,885	(452,149)
Net deferred tax asset	12,219,441	10,993,954	1,225,487
EDP equipment and software	30,469	338,507	(308,038)
Furniture and equipment	5,175	119,613	(114,438)
Interest maintenance reserve	519,033	550,671	(31,638)
Other assets	1,682,004	2,326,494	(644,490)
Totals	$ 15,000,991	$ 14,997,002	$ 3,989

Note I - Commitments and Contingencies

Various lawsuits and claims arising in the ordinary course of business are pending against the Company. In the opinion of management and counsel, liabilities, if any, in excess of the amount accrued or assigned as of December 31, 2008, resulting from such lawsuits and claims, will not materially affect the Company's financial position.

The Company participates in guaranty associations in certain states in which it conducts business. These associations were created for the purpose of protecting life, health and annuity policyholders and their beneficiaries against failure in performance of contractual obligations by impaired insurance companies also conducting business in those states. The Company is subject to annual retrospective assessments to provide funds to carry out the purposes of these associations. During 2008 and 2007, the Company paid guaranty association assessments amounting to $3,819 and $8,942, respectively.

Note I - Commitments and Contingencies (continued)

During 2006 and 2005, a market conduct examination of EDH was ongoing. The state insurance department conducting the examination challenged the eligibility of certain claims that were ceded to a state-sponsored risk pool ("the pool") during the period from 2001 through 2005. The Company reviewed the eligibility of certain of the insureds ceded to the risk pool, as well as claims for these individuals, and determined that certain of the insureds were ineligible and inappropriately ceded to the risk pool. The Company incurred losses of approximately $350,000 during 2005 for the impact of reversing these claims. During 2006, the TXDOI brought forth certain claims against the Company regarding the aforementioned infractions. At December 31, 2006, the Company and the TXDOI were negotiating a settlement of all claims brought forth by the TXDOI. In connection therewith, the Company consented to a fine of $150,000, to be split evenly between the Company and EDH, in return for a release of any future liability. All monies related to the fine were paid out during the second quarter of 2007.

In connection with the preceding paragraph, at December 31, 2008 and 2007 the Company is involved in litigation in which other carriers participating in the pool are seeking redemption of a portion of assessments they previously paid to the pool. As the pool incurs losses, such losses are recovered by way of assessments to all pool participants. The plaintiffs in this litigation have asserted that they were assessed at higher rates due to the ineligible claims ceded to the pool by EDH on behalf of the Company. The Company intends to vigorously defend itself in this matter, and is unable to determine the likelihood of an outcome or estimate the potential damages that may occur.

During 2008, the Company secured a $300,000 standby letter of credit for the benefit of the lessor pursuant to the sale-lease back transaction disclosed in Note J.

Note J - Leases

The Company leases offices, furniture and equipment under various non-cancelable operating leases. Rental expense for the years ended December 31, 2008 and 2007 amounted to $1,563,390 and $1,601,413, respectively. As discussed further in Note C, during 2006 the Company entered into a sale-leaseback transaction for certain real estate properties. The operating lease associated with this transaction is non-cancelable, continues through 2019, and is subject to a 3% escalation clause. Future minimum lease obligations under this lease are as follows at December 31, 2008:

Year	Amount
2009	$ 1,172,178
2010	1,207,344
2011	1,243,564
2012	1,280,871
2013	1,319,297
Thereafter	9,927,804
Total	$ 16,151,058

Note J - Leases (continued)

Pursuant to the acquisition of the BTW block of business (refer to Note D), the Company assumed leases of office facilities in Birmingham, Mobile, and Montgomery, Alabama for a minimum of one year, with the option to renew for up to an additional three years. These lease obligations were consummated via sublease from BTW or lease re-assignment to the Company. The annual lease payments for each location are $25,000.

In December 2008, the Company entered into a sale-lease back agreeement for computers and equipment, whereby the Company received approximately $300,000 in exchange for fixed assets with a book value of $266,000. The Company recorded a gain on the sale of $33,546. The agreement has a future lease obligation of $9,537 per month for 36 months through 2011, resulting in total payments of approximately $343,000. At the end of the lease term, the Company has the option to extend the lease for an additional twelve months, purchase the assets from the lessor for $1.00, or return the assets to the lessor.

Note K - Other Matters

During the fourth quarter of 2007, the Company initiated a work force reduction, combining an Early Retirement Window ("ERW") and an involuntary Reduction in Force ("RIF"). The reduction impacted thirty employees, eighteen through the ERW (see also Note F) and twelve through the RIF. The initial cost of the ERW and RIF totaled $1,177,000 and $501,000, respectively, solely from termination benefits.

Note L - Surplus

The Company is required by statute to maintain a minimum level of unassigned surplus equal to the greater of $300,000 or authorized control level, as defined by the NAIC.

The NAIC has established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of insurance companies by identifying those companies that may be inadequately capitalized. Under the NAIC’s requirements, each insurer must maintain its total surplus above a calculated threshold or take corrective measures to achieve the threshold. Currently, the Company is required to maintain total adjusted surplus equal to or greater than 250% of the authorized control level, which the Company computes to be $4,505,264 (unaudited), as of December 31, 2008, in its original filing with the NCDOI. Although the Company's RBC report has not been audited, the Company has calculated its RBC level to be 230% as of December 31, 2008, below the minimum required threshold. As a result, the Company has triggered a Company Action Level - Negative Trend event, requiring the preparation and presentation of a comprehensive financial plan identifying the conditions that contributed to the event, proposals for corrective action, forecasts for the current year and at least the four succeeding years with identification of key assumptions to the NCDOI.

Note L - Surplus (continued)

As of December 31, 2008 the Company is not in compliance with North Carolina General Statute ("NCGS") 58-7-170(a), which requires the Company to maintain invested assets equal to its policyholder-related liabilities, plus the minimum surplus requirements of NCGS 58-7-75. The Company has filed a comprehensive plan with the NCDOI covering actions the Company will take in order to comply with the requirements of the statutes. See also Note A.

During 2008, regulatory oversight of the Company's operations was, and continues to be, handled by the Regulatory Actions Division ("RAD") of the NCDOI.

At December 31, 2008 and 2007 the Company reports special surplus funds amounting to $8,196,539 and $8,474,028, respectively. During 2003, the Company entered into a reinsurance agreement with Max Re, under which Max Re assumed 100% of the Company's in force block of industrial life business. In connection with this transaction, Max Re assumed approximately $43.7 million in aggregate reserves, and the Company paid Max Re approximately $32.5 million in premium. This transaction resulted in an immediate surplus enhancement and, in accordance with statutory accounting practices, the Company recognized the gain as a component of special surplus funds and amortizes such amounts into income as profits from the underlying business emerge. The components of special surplus funds for each period presented are reflected in the following table:

	2008	2007
Reinsurance with Max Re	$ 7,405,034	$ 7,627,508
Reserve destrengthening (see Note D)	751,505	786,520
Reinsurance with Quanta (see Note D)	40,000	60,000
Total special surplus funds	$ 8,196,539	$ 8,474,028

As of December 31, 2008, the portion of unassigned funds represented (reduced) by certain items is as follows:

	Cumulative increase (decrease)	Current year increase (decrease)
Unrealized gains (losses), net of tax	$ (21,430)	$ 155,552
Non-admitted assets	(15,000,991)	3,989
Asset valuation reserve	(608,371)	137,746

Note M - Reconciliation to Annual Statement

The following is a summary of net income and surplus differences between balances presented in these financial statements and the 2007 NAIC Annual Statement filed with the NCDOI:

	Financial Statements	Annual Statement	Difference
Net income (loss)	$ (4,333,110)	$ (4,409,825)	$ 76,715
Surplus:			
Aggregate write-ins for special surplus funds	8,196,539	8,156,539	40,000
Unassigned funds (surplus)	805,293	1,338,512	(533,219)
Total	$ 9,001,832	$ 9,495,051	$ (493,219)

Subsequent to the filing of its 2008 NAIC Annual Statement, the Company recorded several adjustments affecting net income and surplus, as follows:

- Pursuant to the BTW transaction disclosed in Note D, the Company had recorded a net receivable from BTW for $305,929 relating to certain ceded activity that the Company disallowed based on the terms of the executed reinsurance agreement. As of December 31, 2008, BTW is disputing this amount and the Company determined that the amount would not be collected timely, and subsequently non-admitted this amount. This adjustment resulted in a net decrease to surplus of $305,929, with no impact to reported net income.
- The Company determined that it had not properly classified $40,000 in surplus relief resulting from the 2005 NAL/Quanta reinsurance transaction as special surplus. The Company subsequently reclassified this amount from unassigned surplus to special surplus, with no net impact to reported surplus or net income.
- The Company determined that an investment in debentures from Aegis Alabama Venture Fund, LP (refer to Note C) were not properly accounted for. A correction was recorded, resulting in a $76,715 increase to surplus and net income.
- Pursuant to the BTW transaction disclosed in Note D, the Company had recorded outstanding contract loans. Certain of such loans could not be substantiated by the Company's records; thus, an adjustment was recorded to non-admit $138,744 of contract loans, resulting in a net decrease to surplus of $138,744, with no impact on reported net income.
- The Company determined that an amount withheld from a reinsurer was understated as a result of activity occurring prior to 2008. A correction was recorded resulting in a $84,890 increase in liabilities and a matching reduction to surplus.

Report of Independent Auditors
on Accompanying Information

Board of Directors
North Carolina Mutual Life Insurance Company

The report on our audit of the statutory basis financial statements of North Carolina Mutual Life Insurance Company ("the Company") as of December 31, 2008 and for the year then ended is presented on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the statutory financial statements taken as a whole. The accompanying Supplemental Investment Risk Interrogatories, Summary Investment Schedule and Supplemental Schedule of Assets and Liabilities of the Company as of December 31, 2008 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements.

As discussed further in Note M to the Company's audited financial statements as of December 31, 2008 and for the year then ended, subsequent to the filing of its 2008 NAIC Annual Statement, the Company determined that several adjustments were necessary. As a result of those adjustments, the following revisions would be necessary to the attached Summary Investment Schedule:

Line 2.1, columns 1 and 3	$ 55,514,685
Line 6, column 3	6,255,066

These supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and, in our opinion, except for the matters described in the preceding paragraph, are fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

Johnson Lambert & Co. LLP

Raleigh, North Carolina
May 8, 2009

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

(To Be Filed by April 1)

For the year ended December 31, 2008

Of The NORTH CAROLINA MUTUAL LIFE INSURANCE COMPANY

Address (City, State, Zip Code) Durham, NC, 27701-3616

NAIC Group Code 0000 NAIC Company Code 67032 Employer's ID Number 56-0340860

The Investment Risk Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.
Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 159,410,885

1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2. Ten largest exposures to a single issuer/borrower/investment.			
2.01 CITIGROUP, INC.	BOND	5,962,777	3.741
2.02 GENERAL ELECTRIC CORP	BOND	3,012,341	1.890
2.03 BELLA VISTA MORTGAGE TRUST	BOND	2,170,064	1.361
2.04 CSX CORP	BON	2,043,759	1.282
2.05 WACHOVIA BANK COMM MTGE TR	BOND	1,971,467	1.237
2.06 POWERHOUSE SQUARE, LLC	MORTGAGE LOAN	1,960,478	1.230
2.07 COUNTRYWIDE ALTERNATIVE	BOND	1,938,143	1.216
2.08 THE STANLEY WORKS	BOND	1,934,645	1.214
2.09 AEGIS ALABAMA VENTURE FUND	BOND	1,779,883	1.117
2.10 EXELON GENERATION	BOND	1,639,421	1.028

NAIC Rating	1 Amount	2 Percent
3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.		
Bonds		
3.01 NAIC-1	74,233,425	46.567
3.02 NAIC-2	27,926,174	17.518
3.03 NAIC-3	940,057	0.590
3.04 NAIC-4		
3.05 NAIC-5	101,973	0.064
3.06 NAIC-6	935,820	0.587
Preferred Stocks		
3.07 P/RP-1		
3.08 P/RP-2		
3.09 P/RP-3		
3.10 P/RP-4		
3.11 P/RP-5		
3.12 P/RP-6		

4. Assets held in foreign investments:
4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]

	1 Amount	2 Percent
4.02 Total admitted assets held in foreign investments		
4.03 Foreign-currency-denominated investments		
4.04 Insurance liabilities denominated in that same foreign currency		

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

NAIC Sovereign Rating	1 Amount	2 Percent
5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:		
5.01 Countries rated NAIC-1		
5.02 Countries rated NAIC-2		
5.03 Countries rated NAIC-3 or below		

NAIC Sovereign Rating	1 Amount	2 Percent
6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:		
Countries rated NAIC-1:		
6.01		
6.02		
Countries rated NAIC-2:		
6.03		
6.04		
Countries rated NAIC-3 or below:		
6.05		
6.06		

Description	1 Amount	2 Percent
7. Aggregate unhedged foreign currency exposure		

NAIC Sovereign Rating	1 Amount	2 Percent
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:		
8.01 Countries rated NAIC-1		
8.02 Countries rated NAIC-2		
8.03 Countries rated NAIC-3 or below		

NONE

NAIC Sovereign Rating	1 Amount	2 Percent
9. Two largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:		
Countries rated NAIC-1:		
9.01		
9.02		
Countries rated NAIC-2:		
9.03		
9.04		
Countries rated NAIC-3 or below:		
9.05		
9.06		

1 Issuer	2 NAIC Rating	3 Amount	4 Percent
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
10.01			
10.02			
10.03			
10.04			
10.05			
10.06			
10.07			
10.08			
10.09			
10.10			

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
    11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

Description	1 Amount	2 Percent
11.02 Total admitted assets held in Canadian Investments		
11.03 Canadian-currency-denominated investments		
11.04 Canadian-denominated insurance liabilities		
11.05 Unhedged Canadian currency exposure		

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
    12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

1 Contractual Sales Restrictions	2 Amount	3 Percent
12.02 Aggregate statement value of investments with contractual sales restrictions		
Largest 3 investments with contractual sales restrictions:		
12.03		
12.04		
12.05		

13. Amounts and percentages of admitted assets held in the ten largest equity interests:
    13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

1 Name of Issuer	2 Amount	3 Percent
Assets held in equity interests:		
13.02		
13.03		
13.04		
13.05		
13.06		
13.07		
13.08		
13.09		
13.10		
13.11		

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
    14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1 Investment Category	2 Amount	3 Percent
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities		
	Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03			
14.04			
14.05			

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
    15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1 Investments in General Partnerships	2 Amount	3 Percent
15.02	Aggregate statement value of investments held in general partnership interests		
	Largest 3 investments in general partnership interests:		
15.03			
15.04			
15.05			

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
    16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes[ ] No[X]
    If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)	2 Amount	3 Percent
	Total admitted assets held in Mortgage Loans		
16.02	COMMERCIAL	1,960,478	1.230
16.03	COMMERCIAL	1,293,775	0.812
16.04	COMMERCIAL	1,226,790	0.770
16.05	COMMERCIAL	1,109,373	0.696
16.06	COMMERCIAL	786,250	0.493
16.07	COMMERCIAL	761,902	0.478
16.08	COMMERCIAL	628,960	0.395
16.09	COMMERCIAL	575,523	0.361
16.10	COMMERCIAL	521,961	0.327
16.11	COMMERCIAL	364,855	0.229

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

Description	Loans 2 Amount	3 Percent
Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:		
16.12 Construction loans	1,337,425	0.839
16.13 Mortgage loans over 90 days past due	649,305	0.407
16.14 Mortgage loans in the process of foreclosure	130,676	0.082
16.15 Mortgage loans foreclosed	166,984	0.105
16.16 Restructured mortgage loans		

Loan-to-Value	Residential 1 Amount	Residential 2 Percent	Commercial 3 Amount	Commercial 4 Percent	Agricultural 5 Amount	Agricultural 6 Percent
17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:						
17.01 Above 95%			236,660	0.148		
17.02 91% to 95%						
17.03 81% to 90%	111,095	0.070	338,207	0.212		
17.04 71% to 80%			1,398,950	0.878		
17.05 Below 70%	1,359,650	0.853	9,347,183	5.864		

18. Amounts and percents of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
  18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
  If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

1 Description	2 Amount	3 Percent
Largest 5 investments in any one parcel or group of contiguous parcels of real estate:		
18.02		
18.03		
18.04		
18.05		
18.06		

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:
  19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
  If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1 Description	2 Amount	3 Percent
19.02 Aggregate statement value of investments held in mezzanine loans		
Largest three investments held in mezzanine real estate loans:		
19.03		
19.04		
19.05		

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

Description	At Year-End Amount 1	At Year-End Percent 2	Amount at End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:					
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)					
20.02 Repurchase agreements					
20.03 Reverse repurchase agreements					
20.04 Dollar repurchase agreements					
20.05 Dollar reverse repurchase agreements					

Description	Owned 1 Amount	Owned 2 Percent	Written 3 Amount	Written 4 Percent
21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:				
21.01 Hedging				
21.02 Income generation				
21.03 Other				

NONE

Description	At Year-End Amount 1	At Year-End Percent 2	Amount at End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:					
22.01 Hedging					
22.02 Income generation					
22.03 Replications					
22.04 Other					

Description	At Year-End Amount 1	At Year-End Percent 2	Amount at End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:					
23.01 Hedging					
23.02 Income generation					
23.03 Replications					
23.04 Other					

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	Gross Investment Holdings 2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	Admitted Assets as Reported in the Annual Statement 4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	2,204,366	1.615	2,204,366	1.621
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies	3,182,476	2.331	3,182,476	2.340
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	104,950	0.077	104,950	0.077
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or Guaranteed by GNMA				
1.512 Issued or Guaranteed by FNMA and FHLMC				
1.513 All other	25,410,447	18.612	25,410,447	18.680
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	7,000,743	5.128	7,000,743	5.147
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	10,961,141	8.028	10,961,141	8.058
1.523 All other				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	54,248,882	39.734	54,248,882	39.880
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	989,157	0.725	989,157	0.727
3.4 Other equity securities:				
3.41 Affiliated	28,686	0.021	28,686	0.021
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties	1,481,254	1.085	1,471,409	1.082
4.4 Multifamily residential properties				
4.5 Commercial loans	11,310,491	8.284	11,190,323	8.226
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (including $...............0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (including $...............0 property acquired in satisfaction of debt)	18,840	0.014		
6. Contract loans	6,712,522	4.917	6,393,810	4.700
7. Receivables for securities	671,669	0.492	671,669	0.494
8. Cash, cash equivalents and short-term investments	12,170,662	8.914	12,170,662	8.947
9. Other invested assets	33,182	0.024		
10. Total invested assets	136,529,468	100.000	136,028,721	100.000

North Carolina Mutual Life Insurance Company

Supplemental Schedule of Assets and Liabilities

Year ended December 31, 2008

The following is a summary of certain financial data included in other exhibits and schedules subjected to audit procedures by independent auditors and utilized by actuaries in the determination of reserves.

Investment Income Earned:	
U.S.Government Bonds	$ 2,083,281
Other bonds (unaffiliated)	3,660,958
Bonds of affiliates	-
Preferred stocks (unaffiliated)	-
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	34,796
Common stocks of affiliates	-
Mortgages loans	720,661
Real estate	27,841
Premium notes, policy loans and liens	566,365
Cash and short-term investments	770,695
Other invested assets	-
Derivative instruments	-
Aggregate write-ins for investment income	27,295
Gross investment income	7,891,892
Real Estate Owned - Book Value less Encumbrances	18,840
Mortgage Loans - Book Value:	
Farm mortgages	-
Residential mortgages	1,470,745
Commercial mortgages	11,321,000
Total mortgages	12,791,745
Mortgage Loans by Standing - Book Value:	
Good standing	12,011,764
Good standing with restructured terms	-
Interest overdue more than 90 days, not in foreclosure	649,305
Foreclosure in process	130,676
Total mortgages	12,791,745
Other Long Term Assets - Statement Value	-
Collateral Loans	6,255,066

North Carolina Mutual Life Insurance Company

Supplemental Schedule of Assets and Liabilities

Year ended December 31, 2008

Bonds and Stocks of Parents, Subsidiaries and Affiliates - Book Value:	
Bonds	-
Preferred Stocks	-
Common Stocks	-
Bonds and Short -Term Investments by Class and Maturity	
Bonds by Maturity - Statement Value:	
Due within one year less	6,731,715
Over 1 year through 5 years	19,845,083
Over 5 years through 10 years	27,839,051
Over 10 years through 20 years	26,159,325
Over 20 years	23,562,275
Total by Maturity	104,137,449
Bonds by Class - Statement Value:	
Class 1	74,233,425
Class 2	27,926,174
Class 3	940,057
Class 4	-
Class 5	101,973
Class 6	935,820
Total by Class	104,137,449
Total Bonds Publicly Traded	101,293,003
Total Bonds Privately Placed	2,844,447
Preferred Stocks - Statement Value	-
Common Stocks -Market Value	1,017,843
Short Term Investments - Book Value	10,038,901
Options, Caps & Floors Owned - Statement Value	-
Options, Caps & Floors Written and in force - Statement Value	-
Collar, Swap & Forward Agreements Open - Statement Value	-

North Carolina Mutual Life Insurance Company

Supplemental Schedule of Assets and Liabilities

Year ended December 31, 2008

Futures Contracts Open - Current Value	-
Cash on Deposit	2,131,761
Life Insurance In Force:	
Industrial	-
Ordinary	761,302,000
Credit Life	-
Group Life	8,105,367,000
Amount of Accidental Death Insurance In Force Under Ordinary Policies	112,724,000
Life Insurance Policies with Disability Provisions In Force:	
Industrial	144,000
Ordinary	1,948,000
Credit Life	-
Group Life	875,237,000
Supplementary Contracts In Force:	
Ordinary -Not Involving Life Contingencies -	22
Amount on Deposit	91,318
Income Payable	1,100
Ordinary - Involving Life Contingencies -	
Income Payable	363
Group - Not Involving Life Contingencies -	
Amount of Deposit	-
Income Payable	-
Group - Involving Life Contingencies -	
Income Payable	-
Annuities:	
Ordinary -	
Immediate - Amount of Income Payable	-
Deferred - Fully Paid Account Balance	2,330,311
Deferred - Not Fully Paid - Account Balance	5,958

North Carolina Mutual Life Insurance Company

Supplemental Schedule of Assets and Liabilities

Year ended December 31, 2008

Group -	
Amount of Income Payable	-
Fully Paid Account Balance	-
Not Fully Paid - Account Balance	-
Accident and Health Insurance - Premiums In Force:	
Ordinary	223,588
Group	935,340
Credit	-
Deposit Funds and Dividend Accumulations:	
Deposit Funds - Account Balance	11,385
Dividend Accumulations - Account Balance	2,622,902
Claim Payments 2008:	
Group Accident and Health - Year Ended December 31, 2008 -	
2008	249,000
2007	732,000
2006	-
2005	-
2004	-
Prior	-
Other Accident and Health -	
2008	202,000
2007	122,000
2006	1,000
2005	-
2004	-
Prior	-
Other Coverages that Use Developmental Methods to Calculate Claims Reserves:	
2008	-
2007	-
2006	-
2005	-
2004	-
Prior	-